



NEWS RELEASE

FOR RELEASE: October 20, 2008

Lines Murphy & Company, P.L.C., of Osage today released an audit report on the City of Osage, Iowa.

The City's receipts totaled \$8,260,496 for the year ended June 30, 2008, a 111.18 percent increase from 2007. The receipts included \$4,345,000 from note proceeds, \$1,088,666 from charges for service, \$816,163 in property tax, \$636,485 from intergovernmental, and \$1,374,182 from other general receipts.

Disbursements for the year totaled \$4,227,840 a 20 percent increase from the prior year, and included \$2,445,335 in operating expenses, \$842,049 from business type activities, \$371,253 for debt service, and \$569,203 for capital projects.

A copy of the report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at: <http://auditor.iowa.gov/reports/reports.htm>.

CITY OF OSAGE
INDEPENDENT AUDITORS' REPORTS
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2008

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City of Osage

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2008)		
Steven Cooper	Mayor	Jan 2008
Laurie Boehmer	Council Member	Nov 2007
Rick Bodensteiner	Council Member	Nov 2007
Brian Adams	Council Member	Jan 2008
Allan Smalley	Council Member	Jan 2008
Jim Werner	Council Member	Jan 2010
Don Breon	Council Member	Jan 2010
Cathy Penney	Clerk	Jan 2008
Bev Miller	Treasurer	Jan 2008
Richard Gross	Attorney	Jan 2008
Jerry Dunlay	Director of Public Works	Jan 2008
Don Fox	Park Commissioner	Jan 2008
John Michels	Park Commissioner	Jan 2010
John LaCoste	Park Commissioner	Jan 2012
Johanna Anderson	Library Trustee	Jul 2007
Della Cordle	Library Trustee	Jul 2008
Mary Fox	Library Trustee	Jul 2008
Brian Jones	Library Trustee	Jul 2011
Mary Ann Carmody	Library Trustee	Jul 2011
Kevin Kolbet	Library Trustee	Jul 2012
Herb Wright	Library Trustee	Jul 2012

(After January 2008)

Steven Cooper	Mayor	Jan 2012
Rick Bodensteiner	Council Member	Jan 2010
Don Breon	Council Member	Jan 2010
Jim Werner	Council Member	Jan 2010
Brian Adams	Council Member	Jan 2012
Kurt Elliott	Council Member	Jan 2012
Allan Smalley	Council Member	Jan 2012
Cathy Penney	Clerk	Jan 2010
Bev Miller	Treasurer	Jan 2010
Richard Gross	Attorney	Jan 2010
Jerry Dunlay	Director of Public Works	Jan 2010
John Michels	Park Commissioner	Jan 2010
John LaCoste	Park Commissioner	Jan 2012
Don Fox	Park Commissioner	Jan 2014
Della Cordle	Library Trustee	Jul 2008
Mary Fox	Library Trustee	Jul 2008
Mary Ann Carmody	Library Trustee	Jul 2011
Brian Jones	Library Trustee	Jul 2011
Kevin Kolbet	Library Trustee	Jul 2012
Herb Wright	Library Trustee	Jul 2012
Johanna Anderson	Library Trustee	Jul 2013

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the primary government financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Osage's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above include only the primary government of the City of Osage, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Osage as of June 30, 2008, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1. In accordance with accounting principles generally accepted in the United States of America, Osage Municipal Utilities has issued separate financial statements for which other auditors have issued their report dated June 12, 2008.

In our opinion, the primary government financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 10, 2008 on our consideration of the City of Osage's internal control over financial reporting and

our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 24 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Osage's primary government financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the primary government financial statements and, in our opinion, is fairly stated in all material respects in relation to the primary government financial statements taken as a whole.

Lines Murphy & Company P.L.C.

Lines Murphy & Company, P. L. C.
Certified Public Accountants
Osage, Iowa
October 10, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Osage provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

As reflected in the fiscal year 2008 financial statements, the City classified revenue types to more closely resemble those in the Uniform Chart of Accounts for City Governments in Iowa. To facilitate and enhance comparability in this discussion and analysis, fiscal year 2007 amounts have been revised to reflect the proper classification as used for the fiscal year 2008 amounts.

2008 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 0.2%, or approximately \$5,000, from fiscal 2007 to fiscal 2008. Property tax decreased approximately \$115,000 and note proceeds increased \$4,345,000.
- Disbursements of the City's governmental activities increased 18.0%, or approximately \$480,000, in fiscal 2008 from fiscal 2007. Public safety and capital projects disbursements increased approximately \$162,000 and \$284,000, respectively and debt service disbursements decreased approximately \$401,000.
- The City's total cash basis net assets increased 97%, or approximately \$4,033,000 from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities increased approximately \$3,997,000 and the assets of the business type activities increased approximately \$36,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the primary government financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the primary government financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- **Governmental Activities** include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- **Business Type Activities** include the waterworks, the sanitary sewer system and solid waste collections. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) **Governmental funds** account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, 4) the Capital Projects Funds and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

- 2) **Proprietary funds** account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and solid waste funds, considered to be major funds of the City.

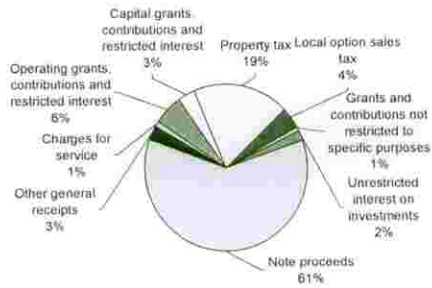
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

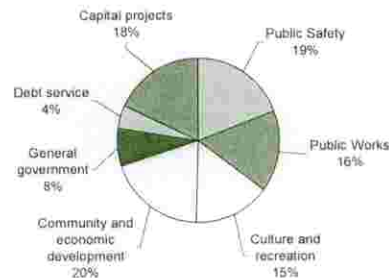
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from \$2.631 million to \$6.629 million. The analysis that follows focuses on the cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service	\$ 80	354
Operating grants, contributions and restricted interest	424	405
Capital grants, contributions and restricted interest	222	2
General receipts:		
Property tax	1,355	1,491
Local option sales tax	296	251
Hotel Motel	21	-
Grants and contributions not restricted to specific purposes	65	38
Unrestricted interest on investments	149	114
Note proceeds	4,345	-
Other general receipts	195	148
Total receipts	<u>7,152</u>	<u>2,803</u>
Disbursements:		
Public safety	601	440
Public works	508	400
Culture and recreation	481	422
Community and economic development	616	368
General government	238	218
Debt service	138	540
Capital projects	569	285
Total disbursements	<u>3,151</u>	<u>2,673</u>
Change in cash basis net assets before transfers	4,001	130
Transfers, net	<u>(4)</u>	<u>15</u>
Change in cash basis net assets	3,997	145
Cash basis net assets beginning of year	<u>2,631</u>	<u>2,486</u>
Cash basis net assets end of year	<u>\$ 6,628</u>	<u>2,631</u>

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased by 155.2%, or approximately \$4,350,000. The total cost of all programs and services increased approximately \$478,000, or 17.9%. The significant increase in receipts was primarily the result of note proceeds received to fund the 2008 Street Project and Pool Project (CRC).

The cost of all governmental activities this year was \$3.153 million compared to \$2.673 million last year. However, as shown in the Statement of Activities and Net Assets on pages 10-11, the amount taxpayers ultimately financed for these activities was only \$2.478 million because some of the cost was paid by those who directly benefited from the programs (\$80,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$595,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in 2008 from approximately \$937,000 to approximately \$675,000. The City paid for the remaining "public benefit" portion of governmental activities (\$2,478,000) with taxes (some of which could only be used for certain programs) and other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	Year ended June 30,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 362	359
Sewer	520	524
Solid waste	145	162
Capital grants, contributions and restricted interest	24	21
General receipts:		
Unrestricted interest on investments	56	42
Total receipts	<u>1,107</u>	<u>1,108</u>
Disbursements:		
Water	471	234
Sewer	466	448
Solid waste	138	156
Total disbursements	<u>1,075</u>	<u>838</u>
Change in cash basis net assets before transfers	32	270
Transfers, net	4	(15)
Change in cash basis net assets	36	255
Cash basis net assets beginning of year	<u>1,537</u>	<u>1,282</u>
Cash basis net assets end of year	<u>\$ 1,573</u>	<u>1,537</u>

Total business type activities receipts for the fiscal year were \$1.107 million compared to \$1.108 million last year. The cash balance increased by approximately \$36,000 from the prior year. Total disbursements for the fiscal year increased by 28.3% to a total of \$1,075,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Osage completed the year, its governmental funds reported a combined fund balance of \$6,628,850, an increase of \$3,997,136 above last year's total of \$2,631,714. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$104,456 from the prior year to \$554,546. The decrease is primarily due to stagnant property valuations meaning little increase in revenues to cover cost increases for employees and fuel for City vehicles.
- The Capital Project, 2008 Street Project was established in the current fiscal year to account for a major street project within the City. At the end of the fiscal year, the cash balance was \$1,154,428. The City received note proceeds of \$1,345,000 to fund this project.
- The Capital Project, Pool Project (CRC) was established in the current fiscal year to account for a major pool project within the City. This fund had a cash balance of \$3,002,695 at June 30, 2008. The City received note proceeds of \$3,000,000 to fund this project.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$55,011 to \$701,493, due primarily to cleaning and painting interior and exterior of South Water Tower. This is done every 20 years.
- The Sewer Fund cash balance increased \$92,105 to \$749,790, due primarily to no capital expenditures and increased interest.
- The Solid Waste Fund cash balance decreased \$1,574 to \$121,673.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 19, 2008 and resulted in an increase in operating disbursements related to increasing police staff, purchase of snow blower, capital projects, economic development grants, Vision Iowa Grant and painting water tower. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$54,049 less than budgeted. This was primarily due to Iowa Department of Economic Development Grant for TOPS Plant Expansion not received by year-end.

Total disbursements were \$1,114,267 less than the amended budget. This was primarily due to delays in capital project work, delay in contribution for Cedar River Complex and IDED Grant.

DEBT ADMINISTRATION

At June 30, 2008, the City had approximately \$6,000,000 in bonds and other long-term debt, compared to approximately \$1,940,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2008	2007
General obligation bonds	\$ 390	485
General obligation notes	4,395	70
Revenue bonds	1,215	1,385
Total	<u>\$ 6,000</u>	<u>1,940</u>

Debt increased as a result of note proceeds received to fund the 2008 Street Project and the Pool Project (CRC).

The City carries a general obligation bond rating of Baa1 assigned by national rating agencies to the City's debt in 2008. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$4,785,000 is significantly below its constitutional debt limit of \$7.1 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Osage's elected and appointed officials consider many factors when setting the fiscal year budget, tax rates and fees. Property taxes and fees provide revenues necessary to provide services to the citizens of Osage.

Property tax asking for fiscal year 2009 is \$23,940 more than fiscal year 2008, which is a 3% increase. The additional tax dollars will be used to cover increased costs for Health insurance and increase in employer's rates for IPERS. The property tax asking in the past two years is lower than the previous 8 years. Tax collections annually are near 100%. The Tax Increment Finance District continues to show growth in property valuations and produces revenues for a variety of improvements and economic development opportunities. Water and Sewer rates will increase 4.1% based on the annual change to CPI-U index.

Projected revenues and expenditures are higher for fiscal year 2009 than fiscal year 2008, due in large part to scheduling of capital projects. The 2008 Street Project started in fiscal year 2008. The completion of construction, assessment payments and sale of Bonds is anticipated in budget for FY 2009. The CRC-Pool Project will be completed over the next two years and bond payments will begin in FY 2009. The City also expects construction to begin in FY 2009 for a Public Safety Center to house the Police and Fire Departments.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cathy Penney, City Clerk, 806 Main Street, City of Osage, Iowa.

City of Osage

City of Osage

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2008

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 601,197	19,237	3,564	4,847
Public works	508,426	26,318	296,599	-
Culture and recreation	481,000	33,568	72,414	-
Community and economic development	616,383	750	-	217,607
General government	238,329	-	-	-
Debt service	138,241	-	51,686	-
Capital projects	569,203	-	-	-
Total governmental activities	3,152,779	79,873	424,263	222,454
Business type activities:				
Water	470,463	362,040	-	-
Sewer	466,180	519,548	23,935	-
Solid waste	138,418	145,234	-	-
Total business type activities	1,075,061	1,026,822	23,935	-
Total	\$ 4,227,840	1,106,695	448,198	222,454
General Receipts:				
Property tax and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Grants and contributions not restricted to specific purposes				
Unrestricted interest on investments				
Note Proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(573,549)	-	(573,549)
(185,509)	-	(185,509)
(375,018)	-	(375,018)
(398,026)	-	(398,026)
(238,329)	-	(238,329)
(86,555)	-	(86,555)
(569,203)	-	(569,203)
(2,426,189)	-	(2,426,189)
-	(108,423)	(108,423)
-	77,303	77,303
-	6,816	6,816
-	(24,304)	(24,304)
(2,426,189)	(24,304)	(2,450,493)
868,561	-	868,561
504,941	-	504,941
2,775	-	2,775
296,396	-	296,396
65,105	-	65,105
149,053	55,983	205,036
4,345,000	-	4,345,000
195,335	-	195,335
(3,841)	3,841	-
6,423,325	59,824	6,483,149
3,997,136	35,520	4,032,656
2,631,714	1,537,436	4,169,150
\$ 6,628,850	1,572,956	8,201,806
\$ 336,064	-	336,064
386,111	-	386,111
91,404	257,505	348,909
948,916	-	948,916
4,866,355	1,315,451	6,181,806
\$ 6,628,850	1,572,956	8,201,806

City of Osage

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2008

	General	Special Revenue		
		Road Use Tax	Tax Increment Financing	Debt Service
Receipts:				
Property tax	\$ 574,171	-	-	2,721
Tax increment financing	-	-	504,941	-
Other city tax	33,357	-	-	55
Licenses and permits	8,414	-	-	-
Use of money and property	67,042	-	15,583	8,167
Intergovernmental	339,886	296,599	-	-
Charges for service	51,040	-	-	-
Special assessments	47,356	-	-	12,468
Miscellaneous	50,808	-	34,380	51,686
Total receipts	1,172,074	296,599	554,904	75,097
Disbursements:				
Operating:				
Public safety	595,328	-	-	-
Public works	161,661	346,765	-	-
Culture and recreation	481,000	-	-	-
Community and economic development	585,156	-	-	-
General government	238,329	-	-	-
Debt service	-	-	-	138,241
Capital projects	-	-	-	-
Total disbursements	2,061,474	346,765	-	138,241
Excess (deficiency) of receipts over (under) disbursements	(889,400)	(50,166)	554,904	(63,144)
Other financing sources (uses):				
Note Proceeds	-	-	-	-
Operating transfers in	803,324	-	-	81,847
Operating transfers out	(18,380)	-	(553,425)	-
Total other financing sources (uses)	784,944	-	(553,425)	81,847
Net change in cash balances	(104,456)	(50,166)	1,479	18,703
Cash balances beginning of year	659,002	386,230	384,632	72,701
Cash balances end of year	\$ 554,546	336,064	386,111	91,404
Cash Basis Fund Balances				
Reserved for debt service	\$ -	-	-	91,404
Unreserved:				
General fund	554,546	-	-	-
Special revenue funds	-	336,064	386,111	-
Capital projects funds	-	-	-	-
Permanent funds	-	-	-	-
Total cash basis fund balances	\$ 554,546	336,064	386,111	91,404

See notes to financial statements.

Exhibit B

Capital Projects			
2008 Street Project	Pool Project (CRC)	Nonmajor	Total
-	-	239,271	816,163
-	-	-	504,941
-	-	318,157	351,569
-	-	-	8,414
1,919	3,331	67,904	163,946
-	-	-	636,485
-	-	10,804	61,844
-	-	17,492	77,316
-	-	51,204	188,078
1,919	3,331	704,832	2,808,756
-	-	5,869	601,197
-	-	-	508,426
-	-	-	481,000
-	-	31,227	616,383
-	-	-	238,329
-	-	-	138,241
492,491	636	76,076	569,203
492,491	636	113,172	3,152,779
(490,572)	2,695	591,660	(344,023)
1,345,000	3,000,000	-	4,345,000
300,000	-	302,972	1,488,143
-	-	(920,179)	(1,491,984)
1,645,000	3,000,000	(617,207)	4,341,159
1,154,428	3,002,695	(25,547)	3,997,136
-	-	1,129,149	2,631,714
1,154,428	3,002,695	1,103,602	6,628,850
-	-	-	91,404
-	-	-	554,546
-	-	855,757	1,577,932
1,154,428	3,002,695	154,686	4,311,809
-	-	93,159	93,159
1,154,428	3,002,695	1,103,602	6,628,850

City of Osage

City of Osage

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2008

	Enterprise Funds			
	Water	Sewer	Solid Waste	Total
Operating receipts:				
Charges for service	\$ 362,040	519,548	145,234	1,026,822
Operating disbursements:				
Business type activities	470,463	233,168	138,418	842,049
Excess (deficiency) of operating receipts over (under) operating disbursements	(108,423)	286,380	6,816	184,773
Non-operating receipts (disbursements):				
Interest on investments	34,571	38,737	6,610	79,918
Debt Service	-	(233,012)	-	(233,012)
Net non-operating receipts (disbursements)	34,571	(194,275)	6,610	(153,094)
Excess (deficiency) of receipts over (under) disbursements	(73,852)	92,105	13,426	31,679
Other financing sources (uses):				
Operating transfers in	18,841	-	-	18,841
Operating transfers out	-	-	(15,000)	(15,000)
Total other financings sources (uses)	18,841	-	(15,000)	3,841
Net change in cash balances	(55,011)	92,105	(1,574)	35,520
Cash balances beginning of year	756,504	657,685	123,247	1,537,436
Cash balances end of year	\$ 701,493	749,790	121,673	1,572,956
Cash Basis Fund Balances				
Reserved for debt service	\$ -	257,505	-	257,505
Unreserved	701,493	492,285	121,673	1,315,451
Total cash basis fund balances	\$ 701,493	749,790	121,673	1,572,956

See notes to financial statements.

City of Osage

City of Osage

Notes to Financial Statements

June 30, 2008

(1) Summary of Significant Accounting Policies

The City of Osage is a political subdivision of the State of Iowa located in Mitchell County. It was first incorporated in 1871 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Osage has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Osage (the primary government) and exclude the City's component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. It has not been included in these primary government financial statements which present the primary government only. Complete financial statements of the individual component unit, which issued separate financial statements as noted below, can be obtained from its respective administrative office.

Component Unit

Osage Municipal Utilities is a component unit of the City of Osage and is not presented in these primary government financial statements. It is legally separate from the City, but is financially accountable to the City. A five-member board, appointed by the Mayor, governs the Utilities. The Utilities and its operating budget are subject to the approval of the City Council.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no known ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Mitchell County Assessor's Conference Board,

Mitchell County Emergency Management Commission, Floyd-Mitchell-Chickasaw County Solid Waste Management Agency, Mitchell County Joint E911 Service Board, and Cedar River Recreation and Fine Arts Complex.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

Capital Projects:

The 2008 Street Project Fund is used to account for the current street project.

The Pool Project (CRC) is used to account for the current pool project.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Solid Waste Fund is used to account for garbage collection services to the citizens of Osage.

C. Measurement Focus and Basis of Accounting

The City of Osage maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City of Osage funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Disbursements did not exceed the amounts budgeted during the year ended June 30, 2008.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of

the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2008, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
U.S. treasury securities	<u>\$10,288</u>	<u>\$13,086</u>	<u>August 2019</u>

Interest rate risk – The City’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes and revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds		General Obligation Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 30,000	1,335	240,000	181,061	180,000	55,202	450,000	237,598
2010	-	-	360,000	175,243	190,000	47,373	550,000	222,616
2011	-	-	370,000	162,255	195,000	39,012	565,000	201,267
2012	-	-	380,000	148,577	205,000	30,237	585,000	178,814
2013	-	-	355,000	134,060	215,000	20,808	570,000	154,868
2014-2018	-	-	1,690,000	476,785	230,000	10,810	1,920,000	487,595
2019-2023	-	-	1,360,000	154,400	-	-	1,360,000	154,400
Total	<u>\$ 30,000</u>	<u>1,335</u>	<u>4,755,000</u>	<u>1,432,381</u>	<u>1,215,000</u>	<u>203,442</u>	<u>6,000,000</u>	<u>1,637,158</u>

The resolutions providing for the issuance of the revenue bonds include the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due. This provision was met as of June 30, 2008.

- (c) Additional monthly transfers of 25% of the amount required in the sewer revenue bond sinking account to a revenue reserve account and \$1,000 to the improvement fund account within the Enterprise Funds shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system. This provision was met as of June 30, 2008.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$61,338, \$50,051 and \$50,130, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory termination payments payable to employees at June 30, 2008, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$41,553
Compensatory	<u>7,059</u>
Total	<u>\$48,612</u>

This liability has been computed based on rates of pay in effect at June 30, 2008.

City employees also accumulate a limited amount of earned but unused sick leave hours for subsequent use. However, sick leave time is canceled if an employee leaves his or her employment with the City.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Tax Increment Financing	\$ 385,851
	Local Option Sales Tax	104,669
	Employee Benefits	222,575
	Emergency Levy	17,302
	Parks and Recreation	53,866
	Library Building and Equipment	3,083
	DARE	975
	Permanent:	
	Ingeborg Hallingby Memorial	3
	Enterprise:	
	Solid Waste	15,000
		<u>\$ 803,324</u>
Special Revenue:	Special Revenue:	
Parks and Recreation	Hotel/Motel	<u>\$ 6,500</u>
Commercial Loan	Tax Increment Financing	<u>\$ 34,380</u>
Dare	Forfeited Property	<u>\$ 3,730</u>
Jaws of Life	General	<u>\$ 200</u>
Capital Improvement Revolving	General	<u>\$ 4,000</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	\$ 59,279
	Tax Increment Financing	22,567
		<u>\$ 81,846</u>
Capital Projects	Capital Projects:	
2008 Street Project	Street Related	<u>\$ 300,000</u>
Street Related	Special Revenue:	
	Local Option Sales Tax	\$ 148,198
	Tax Increment Financing	91,785
	General	14,180
		<u>\$ 254,163</u>
Enterprise:	Special Revenue:	
Water	Tax Increment Financing	<u>\$ 18,841</u>
Total		<u>\$ 1,506,984</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$4,940 during the fiscal year ended June 30, 2008.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Component Unit

Osage Municipal Utilities is a component unit of the City of Osage. It is not included in this report. Following are the transactions between the City and the Utilities:

City paid to Utilities:

Utilities	\$ 98,635
Billing services (bookkeeping)	18,600
Phone and internet	7,616
Miscellaneous	546
Total	<u>\$ 125,397</u>

Utilities paid to City:

Collections for water, sewer, and garbage	\$1,015,142
Donations in lieu of taxes	78,396
Bond principal and interest	51,686
Cable franchise fee	22,154
Tower Rent	2,400
Miscellaneous	3,198
Total	<u>\$1,172,976</u>

(10) Floyd-Mitchell-Chickasaw Solid Waste Management Agency

The City, in conjunction with fourteen other municipalities, has created the Floyd-Mitchell-Chickasaw Solid Waste Management Agency. The Agency was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Agency will be prorated among the municipalities. The Agency is governed by a board composed of an elected representative of the governing body of each participating governmental jurisdiction.

The Agency may not be accumulating sufficient financial resources and the participating governments are obligated for a proportionate share of the debt, therefore, the City of Osage may have an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2008, the City of Osage paid Jendro Sanitation \$135,502. The sanitation company is then responsible for paying all landfill fees for the City's share of the cost. Completed financial statements for the Agency can be obtained from the Floyd-Mitchell-Chickasaw Solid Waste Management Agency.

(11) Economic Development

The City provided funds to Osage Manufacturing, Inc. (OMI), under the provisions of Chapter 15A of the Code of Iowa in the form of a loan with no interest, payable at \$741 per month. The balance owed to the City at June 30, 2008 by OMI was \$117,777. The City also provided funds to A to Z Drying, Inc. under the provisions of Chapter 15A of the Code of Iowa in the form of a loan with 1% interest payable at \$1,401 per month. The balance owed to the City at June 30, 2008 by A to Z Drying, Inc. was \$96,550.

Under the Main Street Loan Program, the City provided funds to small businesses along Main Street during fiscal years 2003-2006, in accordance with the provisions of Chapter 15A of the Code of Iowa in the form of fifteen loans with no interest. The balance of the loans at June 30, 2008 is \$54,693. Payments are to be made on January 10th for the first four years in the amount of one tenth of the original issue. A balloon payment for the remaining balance is due on January 10th of the fifth year.

The Commercial Loan Program expanded on the Main Street Loan Program in 2006 to include small business off of Main Street and outside the Tax Increment Financing District under provisions of Chapter 15A of the Code of Iowa. The Commercial Loan Program is currently made up of sixteen loans with no interest. The balance of these loans at June 30, 2008 was \$138,475 and payments are handled in the same manner as the Main Street Loans mentioned in the preceding paragraph.

(12) Retiree Insurance

City employees who retire before the age of 65 continue to be eligible to participate in the City's health insurance plan. However, these retirees are required to reimburse the City 100% of the premiums.

(13) Housing Revenue Bonds

The City has previously issued \$1,600,000 of housing revenue bonds under the provisions of Chapter 419 of the Code of Iowa of which \$1,145,971 is outstanding at June 30, 2008. The bonds and related interest are payable solely from the rents payable by tenants of the property constructed, and the bond principal and interest do not constitute liabilities of the City. The bonds were issued for the benefit of Martin Luther Homes, Inc., Evergreen Senior Housing.

(14) Leases

The City leases tower space and property to U.S. Cellular, Osage Municipal Utilities and Alltel under three and five-year renewable operating leases. The City receives monthly payments of \$100, \$200 and \$561 from U.S. Cellular, Osage Municipal Utilities and Alltel, respectively. Under the terms of the current lease agreements, annual payments for each of the following five fiscal years are as follows:

2009	\$10,332
2010	2,500
2011	2,400
2012	1,800

The Osage Public Library leases approximately 1,000 square feet of space to North Iowa Area Community College (NIACC) under a two-year renewable lease. The City of Osage will receive a payment of \$4,000 in fiscal 2009.

Also, the City leases property from Mayer's Digging Company. The City pays \$1 per year for the property.

(15) Commitments

As of June 30, 2008, the City had the following commitments with respect to the following projects:

	<u>Remaining Commitment</u>	<u>Expected Date of Completion</u>
2008 Street Construction	\$ 697,979	September 30, 2008
Pool Demolition	39,500	September 30, 2008

(16) USDA Loan Guarantee

On June 9, 2000, the Osage Community Daycare received \$200,000 in note proceeds under United States Department of Agriculture (USDA) Notes. The proceeds were received from two separate \$100,000 notes. The notes are not a general obligation of the City but are payable solely and only from pledges of private funds to be donated to the Osage Community Daycare. The notes bear interest at 5.00% and 4.75% per year, respectively. Interest and principal is paid monthly beginning on July 9, 2002 and each month thereafter until maturity. Monthly interest and principal payments of \$491 and \$475, respectively, are due until maturity on May 9, 2040. The City has guaranteed to pay from its General Fund, up to \$200,000 of the principal amount if revenues from the Osage Community Daycare are not sufficient to make such payment. The Osage Community Daycare has paid the June 9, 2008 principal and interest payment.

(17) Subsequent Events

On July 7, 2008, the City awarded the following contracts with respect to the Cedar River Recreation Project of which the City has 60% of the financial liability:

	<u>Total Commitment</u>	<u>City's Liability</u>
Earthwork	\$ 289,000	173,400
Concrete	995,733	597,440
Pre-cast Hollow Core/Wall Panels	994,650	596,790
Steel and Metals	<u>1,594,700</u>	<u>956,820</u>
Total	<u>\$ 3,874,083</u>	<u>2,324,450</u>

City of Osage
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 816,163	-	-
Tax increment financing	504,941	-	-
Other city tax	351,569	-	-
Licenses and permits	8,414	-	-
Use of money and property	163,946	79,918	3
Intergovernmental	636,485	-	-
Charges for service	61,844	1,026,822	-
Special assessments	77,316	-	-
Miscellaneous	188,078	-	1,340
Total receipts	<u>2,808,756</u>	<u>1,106,740</u>	<u>1,343</u>
Disbursements:			
Public safety	601,197	-	-
Public works	508,426	-	-
Culture and recreation	481,000	-	-
Community and economic development	616,383	-	-
General government	238,329	-	-
Debt service	138,241	-	-
Capital projects	569,203	-	-
Business type activities	-	1,075,061	-
Total disbursements	<u>3,152,779</u>	<u>1,075,061</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	(344,023)	31,679	1,343
Other financing sources (uses), net	<u>4,341,159</u>	<u>3,841</u>	<u>(3)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	3,997,136	35,520	1,340
Balances beginning of year	<u>2,631,714</u>	<u>1,537,436</u>	<u>91,819</u>
Balances end of year	<u>\$ 6,628,850</u>	<u>1,572,956</u>	<u>93,159</u>

See accompanying independent auditors' report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
816,163	809,635	812,355	3,808
504,941	468,000	505,450	(509)
351,569	246,160	318,555	33,014
8,414	6,260	7,260	1,154
243,861	147,285	225,590	18,271
636,485	407,700	735,800	(99,315)
1,088,666	1,132,078	1,089,278	(612)
77,316	49,088	71,386	5,930
186,738	148,808	198,663	(11,925)
3,914,153	3,415,014	3,964,337	(50,184)
601,197	586,770	657,720	56,523
508,426	462,022	513,822	5,396
481,000	466,685	768,685	287,685
616,383	384,000	917,530	301,147
238,329	237,548	244,948	6,619
138,241	293,293	138,268	27
569,203	195,000	995,000	425,797
1,075,061	1,039,802	1,081,252	6,191
4,227,840	3,665,120	5,317,225	1,089,385
(313,687)	(250,106)	(1,352,888)	1,039,201
4,345,003	25,700	3,025,700	1,319,303
4,031,316	(224,406)	1,672,812	2,358,504
4,077,331	3,584,469	4,077,330	1
8,108,647	3,360,063	5,750,142	2,358,505

Required Supplementary Information

City of Osage

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,652,105. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements did not exceed the amounts budgeted.

City of Osage
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2008

	Local				Special	
	Option					Jaws
	Sales	Forfeited	Employee	Emergency	Hotel/Motel	of
	Tax	Property	Benefits	Levy		Life
Receipts:						
Property tax	\$ -	-	222,013	17,258	-	-
Other city tax	296,396	-	562	44	21,155	-
Use of money and property	9,584	332	-	-	166	590
Charges for service	-	-	-	-	-	-
Special assessments	-	-	-	-	-	-
Miscellaneous	-	600	-	-	-	400
Total receipts	<u>305,980</u>	<u>932</u>	<u>222,575</u>	<u>17,302</u>	<u>21,321</u>	<u>990</u>
Disbursements:						
Operating:						
Public safety	-	1,340	-	-	-	2,733
Community and economic development	-	-	-	-	1,000	-
Capital projects	-	-	-	-	-	-
Total disbursements	<u>-</u>	<u>1,340</u>	<u>-</u>	<u>-</u>	<u>1,000</u>	<u>2,733</u>
Excess (deficiency) of receipts over (under) disbursements	<u>305,980</u>	<u>(408)</u>	<u>222,575</u>	<u>17,302</u>	<u>20,321</u>	<u>(1,743)</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	-	-	200
Operating transfers out	(312,145)	(3,730)	(222,575)	(17,302)	(6,500)	-
Total other financing sources (uses)	<u>(312,145)</u>	<u>(3,730)</u>	<u>(222,575)</u>	<u>(17,302)</u>	<u>(6,500)</u>	<u>200</u>
Net change in cash balances	(6,165)	(4,138)	-	-	13,821	(1,543)
Cash balances beginning of year	<u>198,164</u>	<u>11,964</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,272</u>
Cash balances end of year	<u>\$ 191,999</u>	<u>7,826</u>	<u>-</u>	<u>-</u>	<u>13,821</u>	<u>7,729</u>
Cash Basis Fund Balances						
Unreserved:						
Special revenue funds	\$ 191,999	7,826	-	-	13,821	7,729
Capital project fund	-	-	-	-	-	-
Permanent funds	-	-	-	-	-	-
Total cash basis fund balances	<u>\$ 191,999</u>	<u>7,826</u>	<u>-</u>	<u>-</u>	<u>13,821</u>	<u>7,729</u>

See accompanying independent auditors' report.

Schedule 1

Revenue					Capital Projects	Permanent		Total
Parks and Recreation	Commercial Loan	Library Building Equipment Materials	Capital Improvement Revolving	DARE	Street, Streetscape & Main Related	Cemetery Perpetual Care	Ingeborg Hallingby Memorial	
-	-	-	-	-	-	-	-	239,271
-	-	-	-	-	-	-	-	318,157
3,147	1,747	11,803	24,187	378	15,967	-	3	67,904
10,104	-	-	-	700	-	-	-	10,804
-	-	-	-	-	17,492	-	-	17,492
33,172	14,292	-	-	1,400	-	1,340	-	51,204
46,423	16,039	11,803	24,187	2,478	33,459	1,340	3	704,832
-	-	-	-	1,796	-	-	-	5,869
-	30,227	-	-	-	-	-	-	31,227
-	-	-	-	-	76,076	-	-	76,076
-	30,227	-	-	1,796	76,076	-	-	113,172
46,423	(14,188)	11,803	24,187	682	(42,617)	1,340	3	591,660
6,500	34,380	-	4,000	3,730	254,162	-	-	302,972
(53,866)	-	(3,083)	-	(975)	(300,000)	-	(3)	(920,179)
(47,366)	34,380	(3,083)	4,000	2,755	(45,838)	-	(3)	(617,207)
(943)	20,192	8,720	28,187	3,437	(88,455)	1,340	-	(25,547)
45,066	43,783	138,344	341,775	5,821	243,141	91,519	300	1,129,149
44,123	63,975	147,064	369,962	9,258	154,686	92,859	300	1,103,602
44,123	63,975	147,064	369,962	9,258	-	-	-	855,757
-	-	-	-	-	154,686	-	-	154,686
-	-	-	-	-	-	92,859	300	93,159
44,123	63,975	147,064	369,962	9,258	154,686	92,859	300	1,103,602

City of Osage
Schedule of Indebtedness
Year ended June 30, 2008

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
1999 Street Improvement	06/01/99	3.70-4.45%	\$ 605,000
General obligation notes:			
2002 Street Improvement and Telecom	07/01/02	2.35-4.40%	\$ 630,000
2003 Urban Renewal	12/09/03	3.95%	140,000
2008 Swimming Pool and Urban Renewal	06/01/08	4.00%	3,000,000
2008 Street Improvement	06/01/08	2.75-4.00%	1,345,000
Total			
Revenue bonds:			
1999 Wastewater Treatment Plant	06/01/99	3.70-4.70%	\$ 2,480,000

See accompanying independent auditors' report.

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
60,000	-	30,000	30,000	2,640	-
425,000	-	65,000	360,000	17,338	-
70,000	-	20,000	50,000	2,567	-
-	3,000,000	-	3,000,000	-	-
-	1,345,000	-	1,345,000	-	-
495,000	4,345,000	85,000	4,755,000	19,905	-
1,385,000	-	170,000	1,215,000	62,512	-

City of Osage
Bond and Note Maturities
June 30, 2008

Year Ending June 30,	2002 Street Improvement and Telecom		2003 Urban Renewal		General Obligation Notes 2008 Swimming Pool and Urban Renewal	
	Issued Jul 1, 2002		Issued Dec 9, 2003		Issued Jun 1, 2008	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2009	3.85 %	\$ 70,000	3.95 %	\$ 20,000	4.00 %	\$ 150,000
2010	4.05	70,000	3.95	20,000	4.00	155,000
2011	4.20	80,000	3.95	10,000	4.00	160,000
2012	4.30	85,000	-	-	4.00	170,000
2013	4.40	55,000	-	-	4.00	175,000
2014	-	-	-	-	4.00	185,000
2015	-	-	-	-	4.00	190,000
2016	-	-	-	-	4.00	195,000
2017	-	-	-	-	4.00	205,000
2018	-	-	-	-	4.00	215,000
2019	-	-	-	-	4.00	220,000
2020	-	-	-	-	4.00	230,000
2021	-	-	-	-	4.00	240,000
2022	-	-	-	-	4.00	250,000
2023	-	-	-	-	4.00	260,000
Total		<u>\$ 360,000</u>		<u>\$ 50,000</u>		<u>\$ 3,000,000</u>

Year Ending June 30,	General Obligation Bonds		Revenue Bonds	
	1999 Street Improvement		1999 Wastewater Treatment Plant	
	Interest Rates	Amount	Interest Rates	Amount
2009	4.45 %	\$ 30,000	4.35 %	\$ 180,000
2010	-	-	4.40	190,000
2011	-	-	4.50	195,000
2012	-	-	4.60	205,000
2013	-	-	4.65	215,000
2014	-	-	4.70	230,000
Total		<u>\$ 30,000</u>		<u>\$ 1,215,000</u>

See accompanying independent auditors' report.

Schedule 3

<u>2008 Street Improvement</u> <u>Issued Jun 1, 2008</u>		
<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Total</u>
2.75 % \$	-	240,000
2.75	115,000	360,000
3.10	120,000	370,000
3.25	125,000	380,000
3.35	125,000	355,000
3.50	130,000	315,000
3.65	135,000	325,000
3.80	140,000	335,000
3.90	145,000	350,000
4.00	150,000	365,000
4.00	160,000	380,000
	-	230,000
	-	240,000
	-	250,000
	-	260,000
<u>\$ 1,345,000</u>		<u>4,755,000</u>

City of Osage

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Five Years

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Receipts:			
Property tax	\$ 816,163	986,053	948,134
Tax increment financing	504,941	474,680	433,742
Other city tax	351,569	281,002	245,649
Licenses and permits	8,414	6,424	6,245
Use of money and property	163,946	130,831	111,443
Intergovernmental	636,485	405,980	432,009
Charges for service	61,844	62,590	62,099
Special assessments	77,316	302,380	60,104
Miscellaneous	188,078	153,387	182,660
Total	<u>\$ 2,808,756</u>	<u>2,803,327</u>	<u>2,482,085</u>
Disbursements:			
Operating:			
Public safety	\$ 601,197	439,691	451,189
Public works	508,426	399,694	351,946
Culture and recreation	481,000	422,427	413,221
Community and economic development	616,383	368,506	125,515
General government	238,329	217,936	257,076
Debt service	138,241	539,631	431,218
Capital projects	569,203	285,069	580,557
Total	<u>\$ 3,152,779</u>	<u>2,672,954</u>	<u>2,610,722</u>

See accompanying independent auditors' report.

Schedule 4

<u>2005</u>	<u>2004</u>
924,410	929,385
400,831	372,459
222,034	235,857
7,033	7,100
61,027	37,216
645,194	450,225
50,849	61,464
198,032	95,373
191,797	203,630
<u>2,701,207</u>	<u>2,392,709</u>

414,667	422,064
356,906	458,405
413,562	380,765
100,988	452,292
209,121	190,628
462,534	1,447,522
193,032	404,607
<u>2,150,810</u>	<u>3,756,283</u>

Independent Auditors' Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's primary government financial statements listed in the table of contents, and have issued our report thereon dated October 10, 2008. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Osage's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Osage's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Osage's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Osage's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Osage's primary government financial statements that is more than inconsequential will not be prevented or detected by the City of Osage's internal control. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the primary government financial statements will not be prevented or detected by the City of Osage's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-08 is a material weakness.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the City of Osage's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Osage's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Osage's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Osage and other parties to whom the City of Osage may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Osage during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


Lines Murphy & Company, P. L. C.
Certified Public Accountants
Osage, Iowa
October 10, 2008

City of Osage

Schedule of Findings

Year ended June 30, 2008

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the primary government financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the primary government financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the primary government financial statements.

City of Osage

City of Osage

Schedule of Findings

Year ended June 30, 2008

Part II: Findings Related to the Primary Government Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-08 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

City of Osage
Schedule of Findings
Year ended June 30, 2008

Part III: Other Findings Related to Statutory Reporting:

- III-A-08 Certified Budget – Disbursements during the year ended June 30, 2008 did not exceed the amounts budgeted.
- III-B-08 Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- III-C-08 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-D-08 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Steven Cooper, Mayor, Owner of Coopers Auto	Auto repairs and parts	\$ 2,250
Brian Adams, Council Member, Brother is owner of Adams Plumbing and Heating	Maintenance and parts	1,994
Cathy Penney, City Clerk, Wife of Mark Penney, contractor	Lawn work	378
Cathy Penney, City Clerk, Mother of Scott Penney, contractor	Lawn work	108
Don Breon, Council Member	Umpired Little League games	160
John LaCoste, Park Commissioner	Small equipment	50

In accordance with Chapter 362.5(10) of the Code of Iowa, the first and second amounts appear to represent a conflict of interest. The amounts are over \$1,500 and bids were not taken. The rest of the transactions do not appear to represent a conflict of interest since the amounts were less than \$1,500.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The City will contact legal counsel.

Conclusion – Response accepted.

City of Osage

Schedule of Findings

Year ended June 30, 2008

- III-E-08 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-F-08 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-G-08 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy was noted.
- III-H-08 Revenue Bonds – The City has complied with the revenue bonds resolutions.
- III-I-08 Financial Condition – There were no funds with deficit balances at June 30, 2008.